Economic SYNOPSES
short essays and reports on the economic issues of the day
2012 ■ Number 2

Employment Dynamics During Economic Recoveries

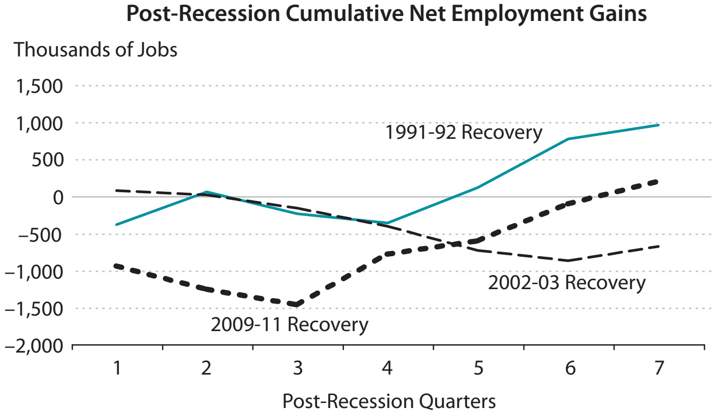
Juan M. Sanchez, *Economist*
Constanza S. Liborio, *Research Associate*

The change in employment, or *net change in employment*, is a commonly used measure of labor market activity. However, another concept important for understanding the labor market is *job reallocation*, or *employment turnover*. The net change in employment is the difference between jobs gained (positions filled) and jobs lost (positions terminated) during a given period. Job reallocation is the sum of these two variables. So, for example, if one job is gained (one person is hired) and one job is lost (one person is laid off or quits) in an economy, the net change in total employment would be zero and the employment turnover (the number of jobs reallocated) would be two.

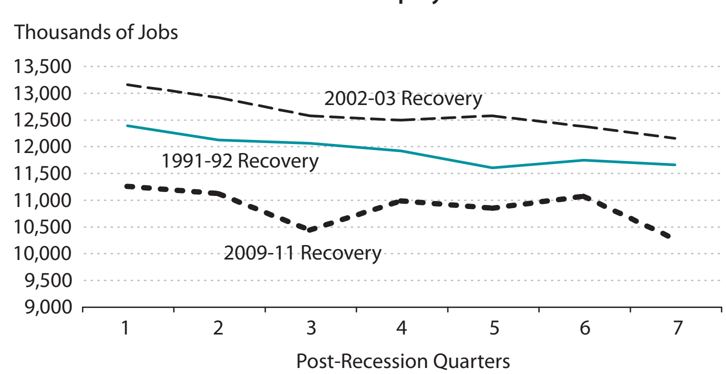
The Business Employment Dynamics data series published by the Bureau of Labor Statistics (BLS) reports quarterly net employment changes as gross job gains and gross job losses.[1] This decomposition allows for the study of the dynamics of job market flows. The top chart compares employment dynamics (of U.S. private-sector firms) for the most recent and two previous recoveries by showing the net job gains accumulated since the beginning of each recovery.[2] During the 1991-92 recovery from the 1990-91 recession, the net employment change became positive in the fifth quarter after the end of the recession. In the 2002-03 recovery from the 2001 recession, however, the number of jobs continued to decrease—net job gains quickly became and remained negative. This phenomenon is commonly referred to as a “jobless recovery.” During the current recovery from the Great Recession, the net job gains of U.S. private-sector firms was initially negative but more recently turned slightly positive.

The bottom chart displays employment turnover for the three recovery episodes. The key finding is that employment turnover was significantly lower following the Great Recession than following the other two recessions. A 1997 study by economists Fuhrer and Schuh helps illustrate the significance of this measure.[3] They explain that the intensity of job reallocation has consequences for unemployment, wage growth, and productivity growth. On average, the number of jobs reallocated per quarter reached 12,245,786 during the past two recoveries, yet only 10,822,429 during the recovery from the Great Recession.

Post-Recession Cumulative Net Employment Gains



Post-Recession Employment Turnover



NOTE: The end of the recessions, as determined by the National Bureau of Economic Research, are 1991:Q1, 2001:Q4, and 2009:Q2 for the 1990-91, 2001, and 2007-09 recessions, respectively. Data correspond to U.S. private-sector firms.
SOURCE: BLS. Data prior to 1992:Q3 are BLS research data not publically available.

Employment turnover was significantly lower following the Great Recession than following the previous two recessions.

What is behind this pattern of slow employment growth and low turnover? No one knows for sure, but a decrease in labor reallocation may be caused by higher rigidity and regulations in the labor market as well as more generous unemployment welfare. Europe provides a major historic example of this phenomenon. Caballero and Hammour's 2000 study describes the importance of labor-market regulation in explaining persistently high unemployment levels in Europe.[4] This evidence suggests that recent trends in employment turnover in the United States should be watched closely to better understand changes in employment and unemployment. ■

[1] The specific data series used is from the Quarterly Census of Employment and Wages; thus, calculations in this synopsis are constructed from the perspective of firms, that is, employers. For an analysis of job market flows using household data, that is, from the perspective of individuals, see Andolfatto, David and Williams, Marcella M. "Many Moving Parts: A Look Inside the U.S. Labor Market. Annual Report for the Year 2010." Federal Reserve Bank of St. Louis, April 2011; www.stlouisfed.org/publications/ar/2010/pages/ar10_2a.cfm.

[2] Economic recoveries are defined here as the seven quarters following the end of a recession as determined by the National Bureau of Economic Research.

[3] Fuhrer, Jeffrey and Schuh, Scott. "Beyond Shocks: What Causes Business Cycles? An Overview," in Jack Rabin and Stevens L. Glenn, eds., *Handbook of Monetary Policy*. New York: Marcel Dekker, 2002, pp. 1-24.

[4] Caballero, Ricardo J. and Hammour, Mohamad L. "Institutions, Restructuring, and Macroeconomic Performance." NBER Working Paper No. 7720, National Bureau of Economic Research, May 2000; www.nber.org/papers/w7720.

Posted on January 20, 2012